

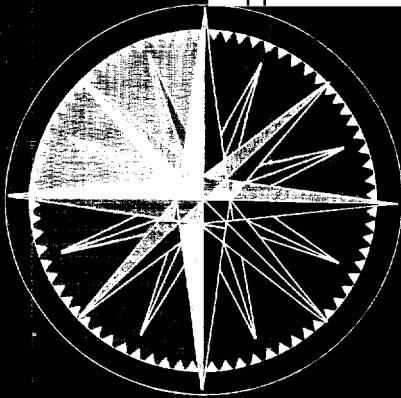
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6 March 1964

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WEEKLY SUMMARY

CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

State Dept. review completed

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GROUP 1 Excluded from automatic
downgrading and declassification

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C O N T E N T S

(Information as of 1200 EST, 5 March 1964)

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SOVIET LEADERS WORK ON ECONOMIC PROBLEMS An unusual top-level meeting last week in Moscow may have been part of a regime effort to maintain tighter than usual control over the chemical and farm programs; or it could have been called to consider means of combating resistance to the regime's present economic course.	3
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As a result, London may be unable to grant the Mediterranean island colony its independence on 31 May as planned. The opposition party is threatening civil disobedience to reinforce its constitutional demands.

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It will provide a forum for pro-Castro propaganda and may strengthen the determination of its participants to discredit their home governments and promote anti-US sentiment.

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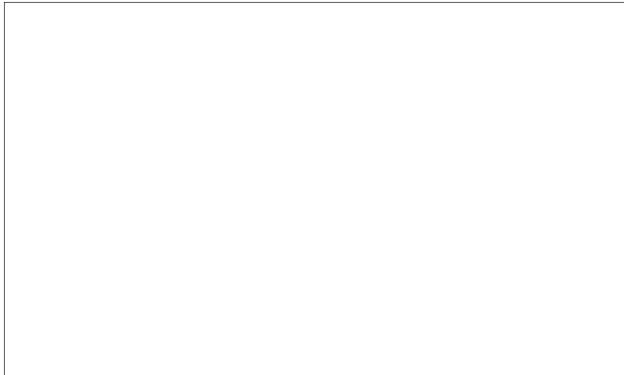
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The Communist World

MOSCOW PREPARES TO RENEW PUBLIC ATTACKS ON PEIPING

There are growing indications that Moscow is about to end its self-imposed moratorium on polemics with Peiping and to renew efforts to convene a world Communist conference to condemn the Chinese. These plans apparently were discussed at the Soviet central committee plenum last month, at which Khrushchev denounced the "newly baked Trotskyites" who, while making "high-sounding revolutionary phrases," are undermining the Communist movement with their "splitting activities."



Immediately after the Soviet plenum ended on 15 February, the Soviets apparently outlined their plans for dealing with the Chinese to foreign Communist parties. They received Bulgarian, Hungarian, and Italian party delegations in Moscow. Khrushchev met with the Yugoslav ambassador on 27 February and the Soviet ambassador called Tito on the 24th.

These consultations appear to have revived fears among foreign parties of the consequences of an explosive showdown and

stimulated efforts to forestall such a development. According to [redacted] the US Embassy in Moscow, the resumption of Soviet public polemics was postponed, primarily at the instigation of the Italian party, to permit a final appeal to Peiping to accept a moratorium on polemics.

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At this point, the Rumanian party announced on 26 February that it had accepted a Chinese invitation to hold top-level talks in Peiping to discuss the unity of the world Communist movement, as well as bilateral relations. Bucharest may have acted in outright defiance of Soviet wishes. It is more likely, however, that the Rumanians, possibly acting as spokesmen for other parties which share their fears of a showdown, discussed the visit with the Soviets, who had no choice but to acquiesce. Pravda's treatment of the visit appears designed to show lack of concern, if not actual approval. On the other hand, the Soviet ambassador at a diplomatic reception in Bucharest reportedly expressed extreme irritation at Rumania's "presumptuous" action.

Whatever the origin of this mission, the Soviet leaders probably believe there is little chance of a favorable Chinese response. They may calculate that the failure of this "final effort" will help them overcome the reluctance of important foreign parties, such as the Italian Communists, to begin preparations for a conference to condemn the Chinese.

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Moscow may also attempt to portray the current Sino-Soviet border talks in Peiping as further proof that it is trying to resolve differences and create favorable conditions for a world Communist conference.

these talks will be confined to technical questions, such as border markings and the location of river channels, in limited stretches of the border. Although little territory is involved, the alignment of the Amur became a major item in dispute last fall when Moscow complained of illegal Chinese occupation of disputed islands in the river and warned that the continuation of such border violations "would be tantamount to embarking on a very dangerous path."

The apparent Soviet decision to resume a public offensive probably was based on the belief that recent Chinese actions not only required a vigorous response but created an opportune moment for which Moscow has been waiting since last October. Peiping's 4 February Red Flag - People's Daily article contemptuously rejected Khrushchev's appeal for a cessation of polemics and pictured it as evidence of weakness on the part of the CPSU. Khrushchev obviously has a strong incentive to disprove Peiping's scornful charge that the Soviet warning last September of a "most resolute rebuff" from the CPSU was nothing but bluff. He may feel that recent Chinese efforts to split pro-Soviet foreign parties and to establish ideological sanction for a bid to replace Moscow as the leader of the world Communist movement will strengthen

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the Soviet case that an unequivocal denunciation of Peiping's activities can no longer be postponed.

The first step in a new Soviet offensive presumably will be the publication of the CPSU letter to the Chinese and speeches and documents on the Sino-Soviet conflict presented at the Soviet party plenum last month. Moscow probably will take this action as soon as the outcome of the Rumanian mission becomes known.

Peiping has clearly been delighted by the Rumanian move. The delegation was met at the airport on 2 March by Liu Shao-chi and party secretary general Teng Hsiao-ping and has since been impressively entertained. Chinese coverage of the visit has been designed to maximize the gain in prestige already conferred by the Rumanian pilgrimage--the first such visit since Khrushchev's trip to Peiping in October 1959.

The Chinese show no inclination to back off in their battle with Moscow and on 1 March broadcast a scathing denunciation of anti-Chinese material published in the Soviet Union. Peiping will probably not cut the Rumanian overture off cold, however. Rather, it seems likely to take a line calculated to stave off any Russian move to force a showdown at this point and to encourage intervention by other members of the bloc, thus increasing the division of opinion inside Moscow's camp.

During talks with the Rumanians, the Chinese will probably attempt to play on Rumanian

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desires for greater independence and press for a communiqué which pays lip service to bloc unity but at the same time stresses "equality" between Communist states and the importance of greater freedom in economic development within the bloc. Although the Chinese are unlikely to give up any substantive position they have taken in the con-

flict with Moscow, they will probably reiterate that they are always ready to engage in bilateral party talks with the Soviets or other parties. This would offer support to those parties seeking an alternative to an international conference that would formally split the Communist world.

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SOVIET LEADERS WORK ON ECONOMIC PROBLEMS

Events in the Soviet Union this past week showed the leadership concerned to a high degree with working out solutions to current economic problems and with charting the future course of economic development. Consideration apparently is being given to some new policies--possibly concerning greater material incentives.

Top-Level Meeting

On 28 February an unusual top-level meeting was convened in Moscow ostensibly to find ways of implementing the decisions of the central committee plenum on agriculture which had ended two weeks earlier. Party presidium members, party secretaries, deputy chairmen of the USSR Council of Ministers, as well as various republic-level and local officials heard Khrushchev once again castigate Stalin's neglect of agriculture and reaffirm the new fertilizer and irrigation programs.

The brief press summary of Khrushchev's report gives no clues as to how the regime may

intend to improve farm incentives, although this was evidently an important topic both at last week's meeting and at the agricultural plenum. The main thrust of Khrushchev's remarks at both meetings seemed to hinge on selective increases in wages for those who make the greatest contribution to production--presumably without large over-all increases in the farm wage bill.

Khrushchev also discussed at last week's meeting the perennial problem of scattering resources among too many building projects. He again called for greater central control, particularly to ensure adequate equipment and machinery for chemical projects.

The importance of the assemblage at last week's meeting contrasted sharply with the complete lack of novelty in the issues summarized in the press release. This could mean that the regime this year feels compelled to work more closely on economic details connected with the chemical and farm programs; it could also mean that the

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meeting was called to consider how to deal with resistance to the present course of action. Khrushchev spoke of bureaucratic foot-dragging at the plenum last month. The meeting may also have been told of some new policy decision concerning Sino-Soviet affairs (see preceding article).

Arzumanyan Article

Probably also related to Moscow's current concern with economic matters was the wide-ranging article by the well-known economist A. Arzumanyan which appeared in Pravda of 24 and 25 February. Invoking Lenin at frequent intervals, Arzumanyan set out an elaborate defense of the current Khrushchev economic program. He then leveled a comprehensive attack on "Stalinist" adherence to heavy industry for its sake alone and on economic planning which does not favor those branches that support technological advance but, rather, programs all industries to develop "arithmetically" with no regard to their economic contribution.

Neither of these oversimplifications is new--Khrushchev has often used them in discussing the need for greater resources for agriculture and the consumer goods program. Arzumanyan, however, extended his arguments well beyond any point to which Khrushchev has publicly committed himself.

According to Arzumanyan, the unconditional development of heavy industry (group "A" in Soviet jargon) is not necessarily

a requisite of rapid growth during all phases of economic history. Citing the US as an example, he attempted to show that there can be rapid technological development even though the output of consumer goods (group "B") is rising much more rapidly than that of heavy industry.

Policy concerning the planned growth rates of "A" industries and "B" industries has been a sensitive economic issue in recent years, symbolizing the whole question of how resources are to be allocated to the various claimants. Since Stalin, consumer goods production has been emphasized more, but heavy industry continues to receive overwhelming priority in economic planning.

Early in 1961 Khrushchev

 said that in the future light and heavy industry would develop at the same rate. However, the formula adopted later that year by the 22nd party congress held that the growth rate of "B" would only gradually approach that of "A," although heavy industry would give increasing support to the consumer goods program --for example, providing machinery and equipment for light and food industry plants.

Khrushchev probably is not satisfied with this formula. At last month's plenum, he affirmed party support for the development of heavy industry but strongly asserted that the output of consumer goods must grow more rapidly in the future.

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RELATIONSHIP OF "A" AND "B" INDUSTRIES IN THE SOVIET ECONOMY

In Soviet economic terminology, "A" designates mainly heavy industry (producer goods) and "B" stands for light industry and food production (consumer goods). This distinction involves certain irregularities--refrigerator manufacturers, for example, are grouped under "A". The figures below are based on official Soviet data.

Ratio of "A" Output to "B" Output (in % of total industrial production)

	<u>1950</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	
"A"	68.8	71.6	72.0	72.5	73.1	74.0	75.0	"A"
"B"	31.2	28.4	28.0	27.5	26.9	26.0	25.0	"B"

Distribution of Capital Investment (1962)

Industry --	Group "A"	34.7%
	Group "B"	4.6
Agriculture		16.0%
Transport and Communications		9.0
Housing		19.2
Cultural and Trade Construction		<u>16.5</u>
		100.0%

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If the Arzumanyan article is a sign of new efforts to increase the output of consumer goods, it would seem to reflect a belated recognition on the part of Soviet leaders that an important key to economic growth is technological advancement backed by an incentive-motivated work force. However, judging by past performance, the Arzumanyan article probably should be treated with reserve. Since the 22nd congress, the consumer goods industry has made no headway in catching up. In fact, in 1963 the gap between the growth rates of "A" and "B" industries was wider than it had been for several years (see chart). Likewise, heavy industrial production and investment plans have generally been overfulfilled while those for the consumer goods industries are frequently not met.

In terms of immediate benefits to the consumer, any new program would have to be very large to make an appreciable change in the balance now so strongly favoring heavy industry. However, in terms of resources, even an attempt to equalize growth rates could mean further strain on an already overcommitted economy. It is possibly in anticipation of resistance to any effort to change the ratio of "A" and "B" that Arzumanyan used so much of his article debating with unnamed "economists and workers" who fail to understand the need to drop Stalin's approach to economic questions. It is possible that Arzumanyan is also arguing against resistance which has already developed, not over the future course of "A" versus "B" but, rather, over the growing share of

"A" that is already being devoted to agriculture and the consumer industries. Khrushchev, at the recent plenum, appeared to be responding to dissent in the almost strident manner in which he pointed to the prominent role his chemical program will play in heavy industrial development. However, the fact is probably not lost on critics of this program that ultimately it is the consumer industries which will benefit heavily from "chemicalization of the economy."

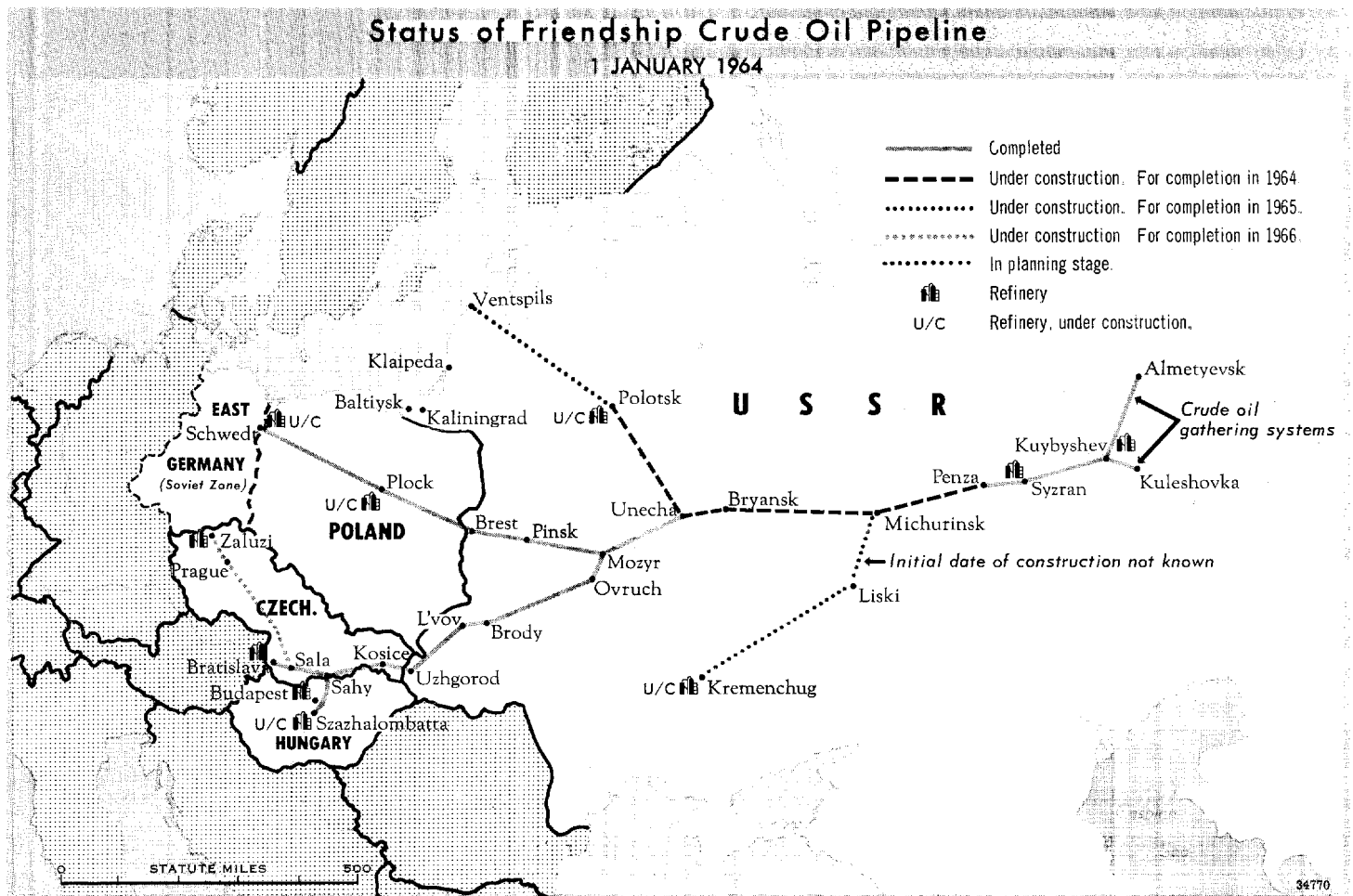
Tighter Labor Controls Proposed

Some action was suggested last week in another area of concern to the regime with the appearance of a letter in Izvestia urging that the worker's labor record become a principal document of identification, replacing the internal passport. A worker presumably would be deterred from frequent job-changing by embarrassment at having this made a matter of important record. In turn, the labor card could be the basis for preferential treatment and reward for longevity.

This proposal is obviously intended to reinstate some control over what has become a relatively "free" labor market and encourage workers--particularly in agriculture--to stay in the specialties for which they were trained. However, such a rule, which could reduce labor turnover somewhat, would still be far milder than the Draconian labor laws of Stalin's time which virtually froze a worker to a particular job at the discretion of the regime.

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STILL NO SOVIET CHEMICAL PLANT DEAL IN WESTERN EUROPE

The USSR is moving slowly on equipment purchases for its expanded chemicals production program. Financial considerations are the chief concern, and Moscow apparently hopes its first major deal will establish credit precedents for subsequent negotiations. It also wants to make sure it gets the most advanced technology available for its money.

After two months of negotiations in the UK, a purchase mission led by the head of the Soviet chemical machinery import corporation and accompanied by two Soviet bankers recently returned to Moscow without buying anything. Even

though the British Government guarantees credits up to 15 years, British lenders may be reluctant to put up funds for that period at the low rates of interest the USSR is willing to pay. Eventually, however, these negotiations are expected to result in some contracts.

Soviet purchasing activity not directly connected with the chemical plant program continues. Moscow has, for example, just purchased three Danish refrigerator ships worth over \$6 million, partially fulfilling its stated intention to order 19 Danish vessels during the next five years.

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BLOC'S FRIENDSHIP OIL PIPELINE ONE YEAR BEHIND SCHEDULE

Although Communist Europe has heralded the opening of its Friendship crude-oil pipeline, the main 40-inch section will not be completed until late 1964, almost one year behind the original schedule. (see map).

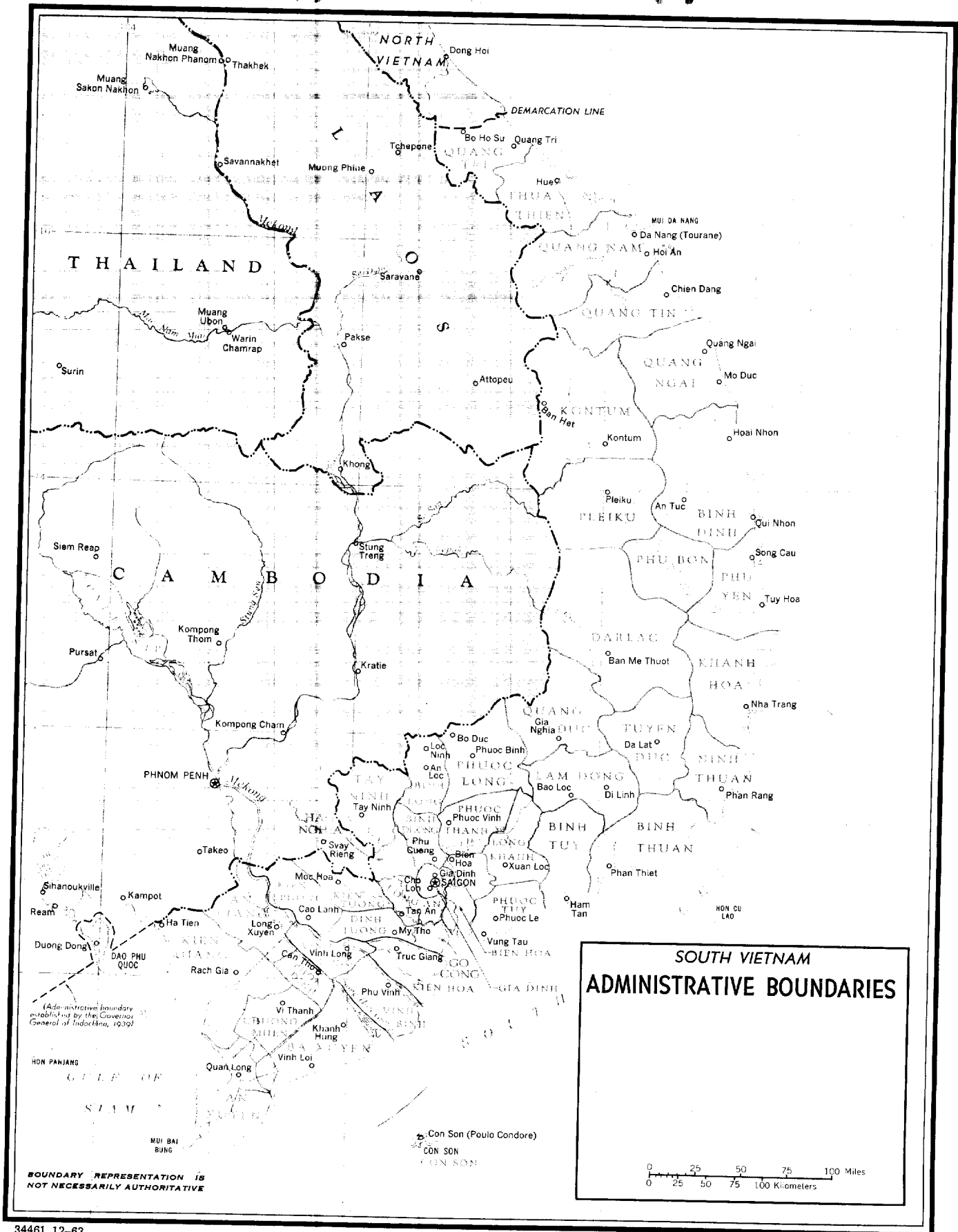
The delay is due largely to a shift in priority to construction of gas pipelines. Most of the 40-inch pipeline available in 1963 was used to complete on schedule the gas line from the Gazli field in Soviet Uzbekistan to Chelyabinsk in the Urals. In addition, some of the USSR's new 40-inch-pipe mills apparently failed to attain the expected rate of production. NATO's agreement not to sell large-diameter (particularly 40-inch) pipe to the USSR indirectly helped delay construction, but the USSR probably could have obtained pipe from the UK if completion of the Friendship line had been considered urgent.

About 500 miles of 40-inch oil pipe are yet to be installed between Penza and Unecha. Work also is under way on two major offshoots of the Friendship Pipeline. The first, the Unecha-Polotsk-Ventspils route, will carry crude oil to a large refinery being constructed at Polotsk and to the Baltic port of Ventspils for export to Northern Europe. Secondly, in Czechoslovakia, the central system is being extended beyond Bratislava to the refinery-petrochemical complex at Zaluži.

Demand for oil is increasing rapidly in Eastern Europe, which has a major refinery construction program under way. By 1970, when the refineries reach their maximum capacities, the Friendship Pipeline will not be adequate to handle the quantities of crude oil needed, and additional carrying capacity may have to be built.

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Asia-Africa

THE SITUATION IN SOUTH VIETNAM

Communist military activity in South Vietnam continues at a comparatively low rate. Terrorism directed against hamlets and stepped-up harassment of communications routes and power lines account for the majority of new incidents. The Viet Cong have also been ambushing convoys and patrols, and harassing areas close to main administrative centers. Although no large-scale Viet Cong attacks occurred during the past week, two separate government operations south and west of Saigon resulted in heavy fighting, apparently with regular Viet Cong battalions. The Communists continue to press their propaganda activities.

The increase of Viet Cong harassment activity in the northern provinces suggests that the Viet Cong may intend to intensify military operations in this area in the coming weeks.

Viet Cong propaganda leaflets in Kontum Province have proclaimed that the latter province would be "liberated" in 1964.

Signs of discontent are still prevalent in the upper echelons of the Khanh government and among the military.

Khanh continues to reshuffle top military commanders in an effort to block any coup plotting.

He has charged--but without substantiation--that the French are trying to oust him and were plotting to have him assassinated during a recent field trip to Tay Ninh Province, northwest of Saigon.

The Khanh regime evidently is continuing efforts to gain the support of the important religious sects, and to win more adherents in the countryside. A Cao Dai general has been appointed province chief in Tay Ninh Province, where the sect is prominent, and Khanh has promised to give land titles to Cao Dai peasants.

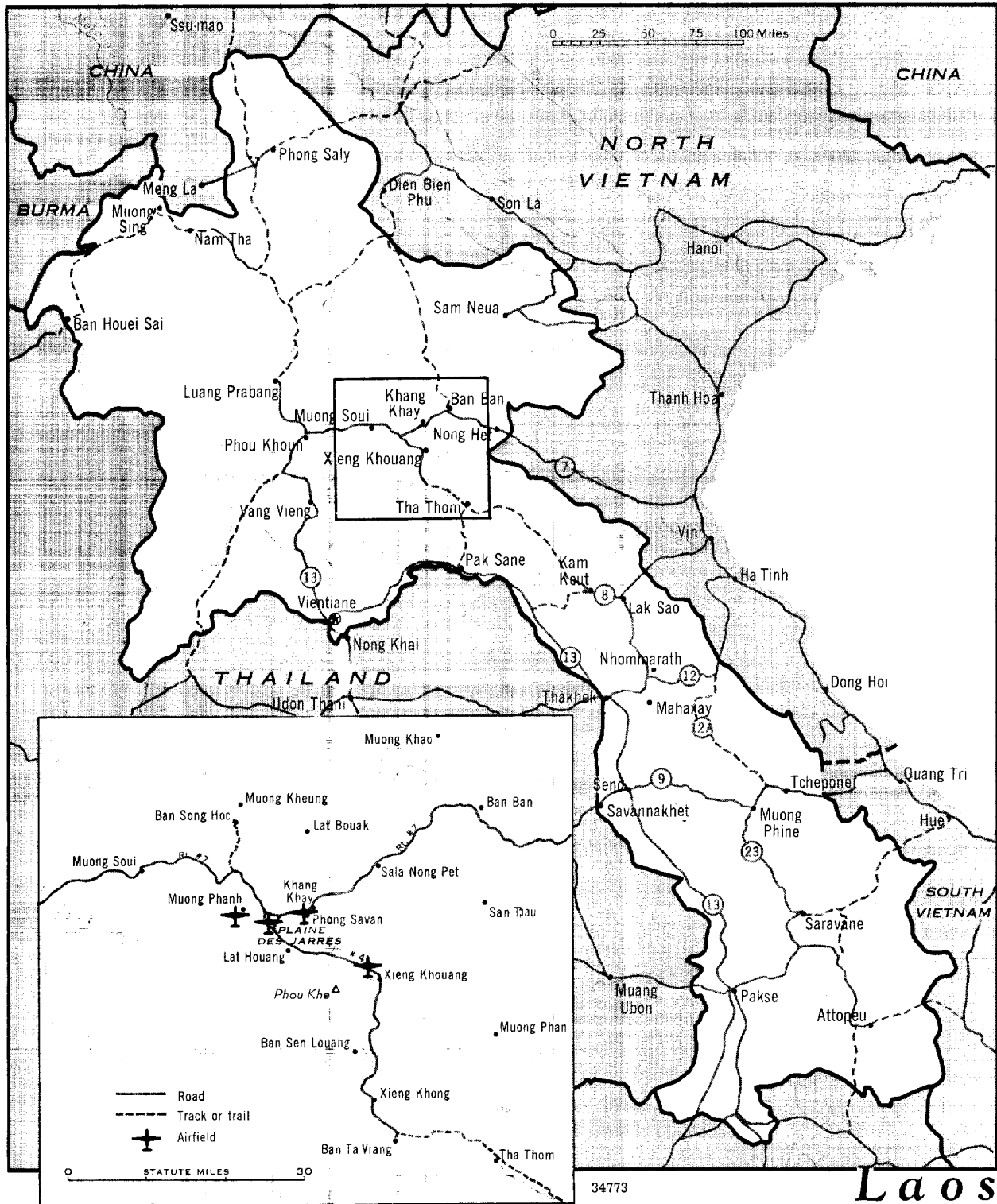
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Asia-Africa

COMMUNIST FORCES MAINTAIN PRESSURE IN LAOS

Communist forces have followed up their recent gains in central Laos with moves against non-Communist units, principally Meo, located east of the Plaine des Jarres. On 25-26 February, Meo and neutralist positions on Phou Khe, the dominant height between Xieng Khouang and the Plaine, were overrun by a mixed force of Pathet Lao and North Vietnamese troops.

[redacted] it appears that the Communists still control the key ridge overlooking Route 4, their supply artery from the Plaine to Xieng Khouang.

Communist forces have also stepped up pressure against Meo irregulars in the mountains east of Xieng Khouang.

The loss of Phou Khe to the Communists has dimmed hopes for an early meeting of the faction leaders. Preparatory talks for such a "summit" meeting broke down, at least temporarily, when the rightist representative failed to show up for scheduled discussions. Rightist leader

General Phoumi Nosavan has charged that the Phou Khe attack "compromised" the talks.

Phoumi, meanwhile, is taking steps to strengthen his position in south-central Laos.

[redacted] He has ordered General Siho to mount an operation east of Savannakhet to clear enemy forces from the important rice-growing lowland areas. Siho has moved his three paratroop battalions-- normally located near Vientiane-- to participate in this action.

This move will sharply reduce the rightist strength assigned to the defense of the capital, and will also have the effect of tipping the power balance in Vientiane in favor of General Kouprasith Abhay, who supports the rightist sub-faction led by the Sananikone family.

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Asia-Africa

MALAYSIAN-INDONESIAN IMPASSE CONTINUES

Malaysia may take its dispute with Indonesia to the UN, following the collapse on 5 March of the second round of ministerial talks in Bangkok. Top Indonesian leaders, who publicly continued to make "crush Malaysia" pronouncements up to the commencement of the talks, refused to withdraw their guerrillas from Malaysian Borneo.

Indonesian Foreign Minister Subandrio has admitted to Indonesian incursions into Ma-

laysian territory since the 25 January cease-fire. Malaysian officials have charged Indonesia with 20 cease-fire violations to date.

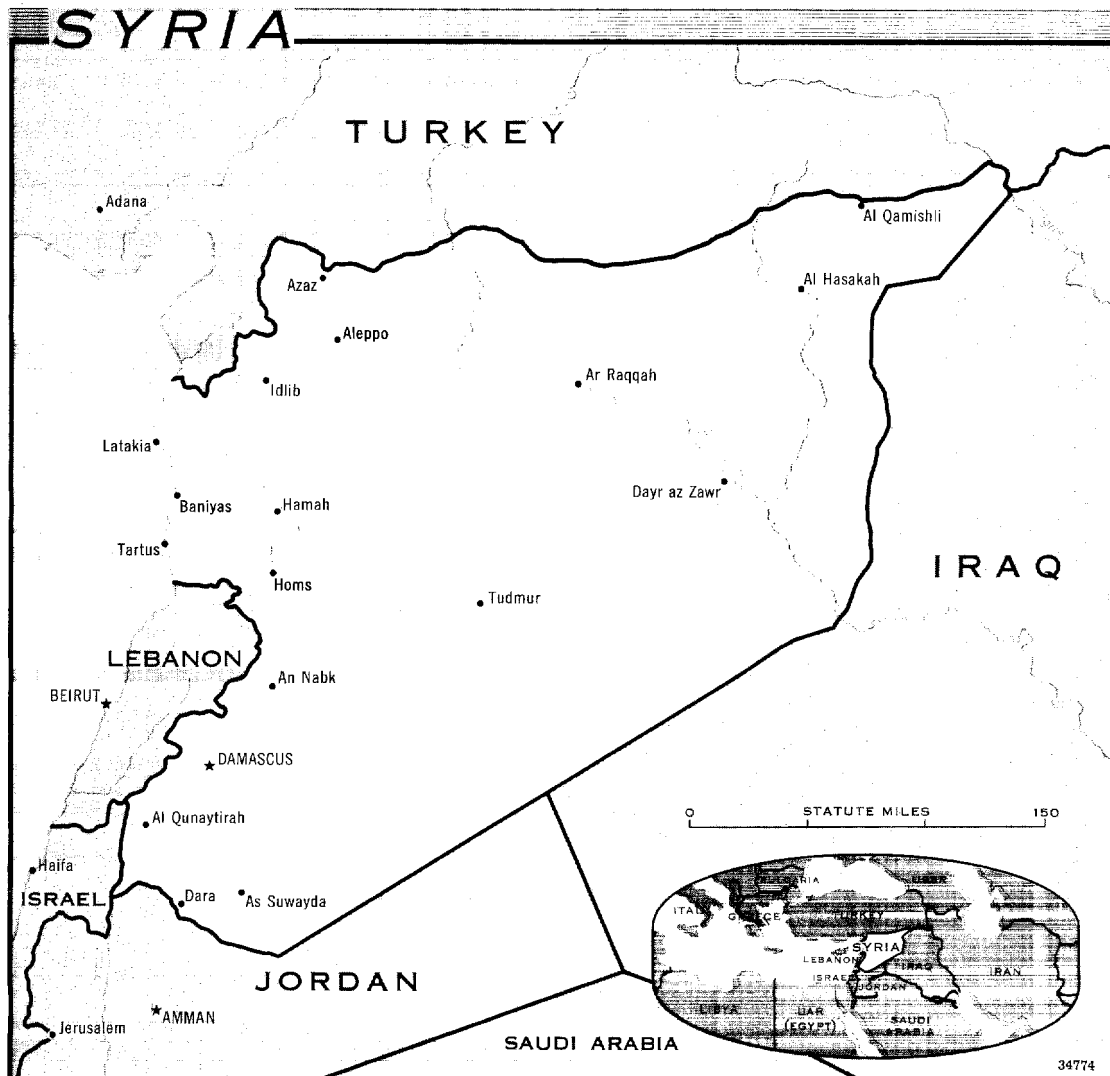
There is no evidence that the Indonesians have air-dropped supplies to their guerrillas in Malaysian Borneo since the Malaysians declared an Air Defense Zone over the area on 25 February.

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Asia-Africa

AREA NOTES

Kashmir: New Delhi's installation of G.M.Sadiq as prime minister of Kashmir is intended to provide that troubled state with a government more responsive to Kashmiri sensitivities than the discredited regime of Bakshi Ghulam Mohammad, ousted last fall, and yet more stable than the successor Shamsuddin administration, which Bakshi dominated from behind the scenes. Sadiq, leader of the left wing of the ruling National Conference, is reliable from the point of view of New Delhi, which hopes the

change will also be enough to assuage Kashmiri irritation with the excesses of previous administrations. Sadiq will need time, however, to build up his own strength, and will have to depend for some time on the Bakshi machine and on Indian administrators sent from New Delhi.

The smooth changeover in Kashmir, stage-managed by L.B. Shastri, is yet another feather in Shastri's cap as he firms up his position as Nehru's heir apparent. [REDACTED]

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Syria: Opponents of Syria's Baathist military government have been encouraged by increasingly widespread and outspoken popular opposition to the regime.

[REDACTED] The regime is itself divided by personal, ideological, and communal rivalries, but it is fighting hard to maintain its precarious position, and has reacted with unusual speed and harshness in quelling opposition activities.

A number of pro-Nasirists were arrested in February

following discovery of another conspiracy. Martial law regulations were enforced after communal rioting in the port city of Baniyas, and a military court quickly imposed severe sentences on nonviolent demonstrators in Homs last week. Most recently, a heavy police and army guard was moved to Aleppo after raiding parties hit police posts there on 29 February. The city is being carefully patrolled. Further disturbances are almost inevitable.

Under these circumstances, a well-organized attempt to unseat the Baath government might succeed. [REDACTED]

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Asia-Africa

LEBANON AGAIN FACES PRESIDENTIAL SUCCESSION ISSUE

After over five years of relative calm, Lebanon is approaching another presidential election which could revive the religious and political factionalism that led to the civil war of 1958. The paramount issue is whether President Shihab, the moderate Maronite Christian whose election terminated the 1958 crisis, will seek re-election. As it now stands, the constitution prohibits a second term for the president, but many Lebanese believe that Shihab is the only leader who can save the country from another period of political violence.

Shihab so far has appeared reluctant to succeed himself. However, the strong sentiment favoring a second term for him may induce him to change his mind--presumably after the constitution has been changed. New parliamentary elections, to be held from 5 April through 3 May, may be followed by some definitive announcement by Shihab regarding his intentions.

The new parliament will elect the president, probably in August. According to a 21-year-old unwritten agreement between leaders of the Muslim and Christian communities, the president is a Maronite and

the prime minister a Sunni Muslim, while other top state offices are distributed among the less important religious groups.

Ex-President Shamun's attempt to succeed himself started the troubles of 1958. An effort by Shihab to follow suit would be opposed by some elements, including Shamun and Maronite Patriarch Maushi, both of whom have long been at odds with him. Shihab's popularity among both Muslims and Christians generally, however, probably would prevent sentiment against him from approaching the intensity of that against Shamun in 1958. Moreover, the UAR, which at that time was deeply involved in supporting Muslim opposition to Shamun, is unlikely to intervene against Shihab.

The army also strongly supports Shihab, who was its commander before he became president.

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Asia-Africa

UN MOVES TO EASE CYPRUS TENSIONS

The 4 March Security Council resolution on Cyprus should reduce some of the tension which has developed in the eastern Mediterranean since mid-December. On 5 March, for the first time in several weeks, the Greek Cypriot press took a fairly benevolent attitude toward the US. In Athens, Premier Papandreou said that adoption of the resolution would re-establish Greece's traditionally good relations with Britain and the US.

Public statements in recent days by both Greek and Turkish leaders have been conciliatory.



Both present and potential problems remain, however. The Greek military are still nervous over the continued Turkish naval build-up. Recent joint Turkish-US fleet exercises in the Aegean caused a violent reaction in the Greek press and were used to promote the anti-American, anti-NATO demonstrations in Athens.

UN Secretary General Thant is moving swiftly to create the international force called for in the Security Council resolu-

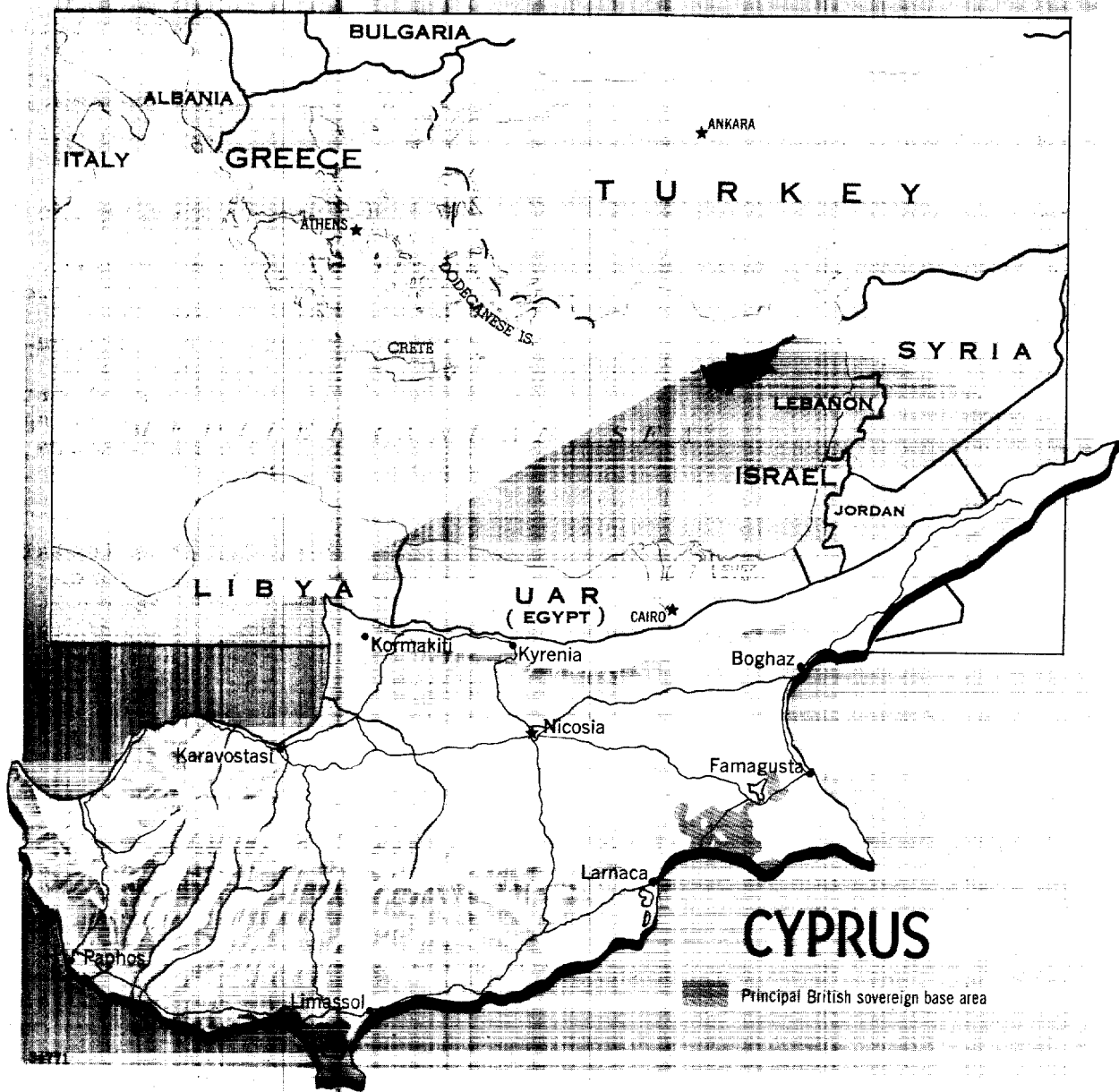
tion. The size and composition are to be determined by him in consultation with Cyprus, Greece, Turkey, and Britain. Problems could arise over the composition.

Thant now is seeking one battalion of troops each from Sweden, Finland, and Ireland, and has sounded out other countries--including Canada and Brazil--for possible contributions. Sweden appears to be the key country in this effort, with the other nations waiting for a decision from Stockholm, probably on 6 March.

The Greek Cypriots insist that the international force be limited to 7,000--approximately the size of the British peace-keeping force now on the island. Both the British and the UN observer on Cyprus previously had recommended a minimum of 10,000. Thant apparently has accepted 7,000 as the number and favors using 3,000 of the British troops already on the island, with the rest to come from other countries.

The British have agreed to having the UN observer, Indian General Gyani, appointed as commander of the international force. The present British commander would become deputy commander and chief of staff.

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Asia-Africa

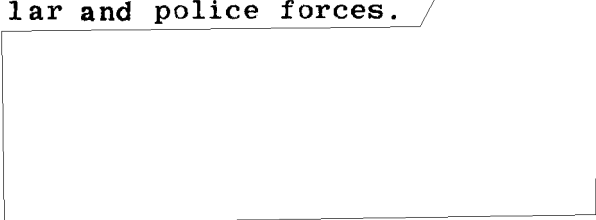
Problems may also arise between the UN force commander and the Cypriot Government. While Britain, Turkey, and the Turkish Cypriots probably foresee the major task of the peace-keeping force as re-establishing a climate of security for members of both communities on Cyprus, the Greek Cypriots apparently view the primary job of this force as assisting the government in its efforts to enforce its authority throughout the island.

Selection of a mediator to attempt to work out a solution to the political problems on Cyprus may also be a difficult task. U Thant must select this individual in consultation with the four governments concerned. The mediator, in turn, will find that the demands of the Greek Cypriots for a unitary state, under majority rule but with guarantees for minorities, are in such direct opposition

to Turkish Cypriot insistence on partition or a federal state that a compromise will be extremely difficult or impossible.

Aside from these difficulties, a new crisis could develop at the end of the three-month period set for the presence of UN forces on Cyprus by the Security Council resolution. The Greek Cypriots have already indicated they will insist on the withdrawal of the force after that time whether or not a political solution has been achieved.

On Cyprus, the Greek Cypriots are continuing to improve the capabilities of their irregular and police forces.



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Asia-Africa

GROWING POPULAR HOSTILITY TO GABON REGIME

Opposition to Gabonese President Leon Mba has grown steadily during a week marked by antigovernment demonstrations and a general strike in the capital, Libreville.

Anti-Mba and anti-French sentiment has developed rapidly, particularly since French troops and Gabonese gendarmes forcibly dispersed an orderly youth demonstration on 1 March. The general strike was called the following day, and mobs began appearing in the streets of Libreville demanding Mba's resignation and the withdrawal of the French from Gabon. The French troops--about 300 strong--have so far been able to contain the demonstrators, but the obviousness of Mba's dependence on French support further reduces his longer term prospects.

Mba reacted to the demonstrations by arresting his principal political rival, Jean Aubame, and another opponent on 2 March.

The French, who had appeared to be urging Mba to compromise with his opponents, now seem willing to back him in such punitive measures. This turn of events makes it difficult for the French to maintain their position that the coup against Mba was merely a military mutiny without popular support. They nonetheless continue to play down the significance of the demonstrations and the role of French troops. A Foreign Ministry official has claimed that the purpose of continued French activity in Gabon is to allow Mba to carry out his investigation of the coup and to hold elections as scheduled in April. Efforts are being made by French officials both in Paris and in Africa to implicate the US in the effort to oust Mba.

AREA NOTE

Somalia and Ethiopia are both taking pains to observe the cease-fire along their frontier. Officials in the Somali capital, however, appear nervous over a spate of reports, apparently exaggerated, of Ethiopian troop buildups "all along the border." They seem convinced that American personnel and equipment are involved, and the US Embassy feels that they would construe the arrival of any further US

military assistance to Ethiopia as confirmation of this.

The US Embassy in Ethiopia believes that Emperor Haile Selassie's position has been weakened by his refusal to permit an all-out punitive invasion of Somalia and by his evident reliance on the Organization of African Unity, which failed at its meeting last week in Lagos, Nigeria, to condemn Somalia's irredentist policies.

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Europe

EEC COUNCIL OF MINISTERS MEETING

The outcome of last week's meeting of the European Economic Community's Council of Ministers has underlined once more the member states' continuing readiness to proceed with economic integration, despite their persistent disagreements over the broad lines of political unity.

The Council of Ministers adopted in principle a timetable for accomplishing the merger of the executives of the EEC, Euratom, and the Coal-Steel Community. The ministers accepted a French proposal calling for approval and ratification of a new single treaty fusing all three organizations by 1 January 1967, if a common executive is established by the target date of 1 January 1965.

An important step toward further liberalization of intra-community commerce was the adoption by the council of six directives which abolish some of the restrictions on the movement of trade personnel among member states. These rulings, which apply to persons engaged in commercial activities, complement regulations adopted earlier in February advancing the free movement of industrial wage earners within the community.

The council also discussed the possibility of another acceleration in the reduction

of internal tariffs, which have twice already been accelerated beyond the original schedule. Commissioner Hallstein is urging a virtual elimination of internal tariffs by January 1966 and a concurrent final institution of the common external tariff. As with the earlier tariff reductions, a commitment now to another accelerated move would be a political act of confidence in the Common Market, quite apart from its economic effects.

Statements made by national representatives revealed interest in coming to grips with some of the economic and social policies which are a necessary counterpart to the customs union aspect of the EEC. Such issues as economic planning, harmonization of fiscal policies, and coordinating ways of handling business cycles are already in various stages of study within the community, but the favorable Council of Ministers' discussion suggests that concrete moves toward cooperation in these difficult matters may be taken soon.

In his recent talks with Italian President Segni, De Gaulle favored such moves, along with fusion of the European executives, as the means of proceeding from economic to political cooperation. 25X1

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Europe

ITALY'S ANTI-INFLATION PROGRAM UNDER ATTACK

The Italian Government is expected to get parliamentary approval of its new program to cope with economic difficulties, despite the serious disagreements within the governing coalition. However, if the measures now proposed prove inadequate, an effort to enact a more stringent program could bring on a cabinet crisis.

The objective of the present program is to limit consumer demand, brake the rise in living costs, and contain Italy's grave balance-of-payments deficit. In addition to restraints on installment buying, for example, the government is proposing selective tax hikes designed to discourage semiluxury buying and produce additional tax revenue.

The most controversial measure revises taxation of dividend income by amending a 1962 law which obliged Italian taxpayers for the first time to disclose their security holdings. This 1962 measure was enacted only after many years of effort and was considered a major accomplishment of the Socialist-supported Fanfani government. The present law would exempt shareholders from the requirement of disclosing these holdings, provided they pay a 30-percent withholding tax on dividends. The rate of those who do register would be reduced to 5 percent--from a flat 15 percent under the old law.

The US Embassy comments that the proposed legislation represents a serious effort to deal with current economic problems. Moreover, given the strong opposition to certain measures by

some of the forces within the coalition, the program probably is the best possible compromise that could be reached. Despite the Socialist Party's formal endorsement, there is some evidence that the strong disapproval of certain measures--particularly the withholding tax revision--by some of its leaders severely strained the coalition. The Socialists acknowledge the need for giving priority to restoring economic stability, and have consequently agreed to postpone until 1965 budget allocations for structural economic reforms agreed upon in the program establishing the coalition. However, many Socialists believe the burden of the new laws weigh disproportionately on lower income groups.

The Conservative Liberal Party and large industrial interests endorse the changes in the withholding tax law, but scathingly criticize most other measures. Their current pressures on Premier Moro are partly aimed at discrediting his government in an effort to bloc enactment of the government's basic reform program.

Probably the most serious immediate threat to the government's anti-inflation efforts, however, comes from the Communist Party, which dominates the country's largest labor confederation. The party is threatening further pressure for large-scale wage increases, which would negate the stabilizing effect of the new laws. 25X1

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Europe

MALTA INDEPENDENCE TALKS DEADLOCKED

The talks on independence for the Maltese Islands which resumed in London last month were temporarily recessed on 28 February in apparent deadlock on constitutional questions. As a result London may not be able to carry out its intention to grant this Mediterranean colony its independence by 31 May. Moreover, the internal security situation there is causing increasing concern.

The questions at issue are whether the constitution should provide for a system of proportional representation, whether a referendum on independence should be held, and whether elections should precede or follow independence. The basic difficulty, however, is that the Maltese political leaders are in disagreement over the future status of the Roman Catholic Church on the islands.

Dom Mintoff, leader of the opposition Labor Party and probably Malta's strongest political figure, is inflexibly opposed to the political influence of the church. He had demanded that any draft constitution contain ironclad guarantees to prevent church intervention in elections and to restrict church prerogatives--for example, by instituting

civil marriage. Prior to his departure for the London talks, Mintoff told a meeting of Maltese workers that he was prepared to resort to strikes and other forms of civil disobedience to reinforce his demands.

Some senior British military and political officials in Malta are inclined to take Mintoff's threats seriously, and there is increasing pressure on Colonial Secretary Sandys to take another look at the entire independence idea. The overpopulated islands' economic viability is uncertain, and some minor Maltese party leaders have been insisting that the Maltese do not want independence. Some of Sandys' cabinet colleagues reportedly have suggested that he defer action until after the British general elections.

Nevertheless, Sandys seems to feel bound by his commitment of last August to proceed with independence. Should Maltese leaders continue deadlocked when the talks resume later this month, Sandys is likely to ask the Maltese to decide by referendum whether they accept independence with the present draft constitution or wish to postpone independence pending further negotiations.

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Western Hemisphere

PRO-COMMUNIST LATIN AMERICAN YOUTH CONGRESS TO CONVENE

The second Latin American Youth Congress (LAYC) is scheduled to meet in Santiago, Chile, from 9 to 13 March. Cuba and the Moscow-directed World Federation of Democratic Youth and International Union of students are providing organizational direction and financial backing. The organizers of the conference claim it will attract 500 delegates from Latin American countries.

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[redacted] "world peace and peaceful coexistence," and the role youth is to play in the "fight against imperialism." Efforts will be made to avoid the question of Sino-Soviet polemics. It seems doubtful, however, that the conference's leaders could altogether muzzle the more militantly inclined delegates who may push for a pro-Chinese resolution. The surfacing of the Sino-Soviet

dispute would be highly disruptive and could cause the conference to fail completely.

The Chilean Government has adopted a policy of mild harassment toward the LAYC which could handicap it severely. Chilean embassies have apparently been instructed not to issue visas to prospective LAYC delegates. This action cannot legally bar delegates from attending the conference since visitors to Chile can travel on their identity cards, but it may be sufficient to discourage some would-be representatives.

This conference will be useful to its Castro-Communist organizers if ideological rifts can be smoothed over. It will provide a forum for the dissemination of pro-Castro propaganda throughout Latin America. Moreover, the LAYC may strengthen the determination of those who participate to discredit their home governments and to promote anti-US sentiment. [redacted]

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OPPORTUNISM AND CORRUPTION IN DOMINICAN GOVERNMENT

Increasing political opportunism and corruption within the Dominican regime are further diminishing the already slim chances for a prompt return to democratic government. Triumvirate President Donald Reid Cabral, a political independent,

is becoming increasingly isolated in his efforts to curb abuse of official privileges by several political groups seeking to enhance their prospects for the series of elections tentatively scheduled to begin this fall.

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Western Hemisphere

Reid is maneuvering to eliminate from the cabinet representatives of the tiny Revolutionary Vanguard Party (VRD), who have been using their official position to secure government jobs and political kickbacks for the party. VRD leaders and at least some leaders of the other party in the government, the National Civic Union (UCN), are said to hope that the election processes can be manipulated to their advantage, another maneuver which Reid opposes.

Reid's most recent proposal, a political amnesty for some jailed Castro Communists and various personalities of the Trujillo era, brought a strong negative reaction from the other triumvirs, who are increasingly under the influence of Rafael Bonnelly, who was president of the former ruling Council of State, and of Luis Amiana and Antonio Imbert, the two surviving assassins of Trujillo. Besides taking a "hard line" against extreme leftists, these men want to prevent the return to the country of former President Joaquin Balaguer, who is being increasingly mentioned as a presidential possibility.

rumors of his imminent return recently aroused considerable tension in Santo Domingo.

Brig. General Belisario Peguero, chief of the oversized national police force, also appears to be maneuvering to defeat Reid's purposes. There are

signs that Imbert and others close to Peguero have secured "assistance" from police personnel in efforts to discredit former President Juan Bosch's Dominican Revolutionary Party (PRD) and to build up Amiana's new Liberal Evolutionist Party (PLE). The 1964 budget for the ministry which handles police expenditures is nearly triple that of 1963 and now equals that of the army, navy, and air force combined.

These developments will hardly encourage the PRD and other non-Communist leftists, who received two thirds of the vote in the 1962 election, to believe that the current regime will hold fair elections or that the armed forces will uphold the result regardless of the outcome. The Revolutionary Social Christian Party (PRSC), the only non-Communist party with strong affiliates among students and labor, has at least temporarily come under new "leftist revolutionary" leadership, and other normally moderate elements may become more militant unless genuine political freedom is in evidence soon.

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Western Hemisphere

VENEZUELAN PRESIDENT-ELECT SET TO LOSE COALITION PARTNER

Party maneuvering in Venezuela in advance of the inauguration of President-elect Leoni on 11 March suggests that his chances of securing a stable majority in Congress have decreased. The Christian Democratic Party (COPEI), which has participated in outgoing President Betancourt's coalition, announced on 29 February that it will not join Leoni's government.

COPEI emerged from the December 1963 elections as the second strongest party in Venezuela, followed closely by the Democratic Republican Union (URD). COPEI's political views are closer to those of the Democratic Action party (AD) of Betancourt and Leoni than to any other. Unless Leoni is successful in a further effort to reach agreement with COPEI, his legislative position will be weaker than Betancourt's has been, and the stability of his government may be adversely affected.

The specific reasons for COPEI's break are not entirely clear, but its increasing size and influence appear to have aroused the fears of AD leaders. Relations between the two parties are likely to be strained for some time.

The defection of COPEI has impelled Leoni to reach an agreement with the URD and the

independents on the distribution of the congressional offices, and he is presently negotiating with them on cabinet posts.

The effect of these developments on the attitude of the military is not yet clear. Armed forces leaders willingly backed the AD-COPEI partnership but may not be as tolerant of whatever arrangement Leoni proposes to replace it.

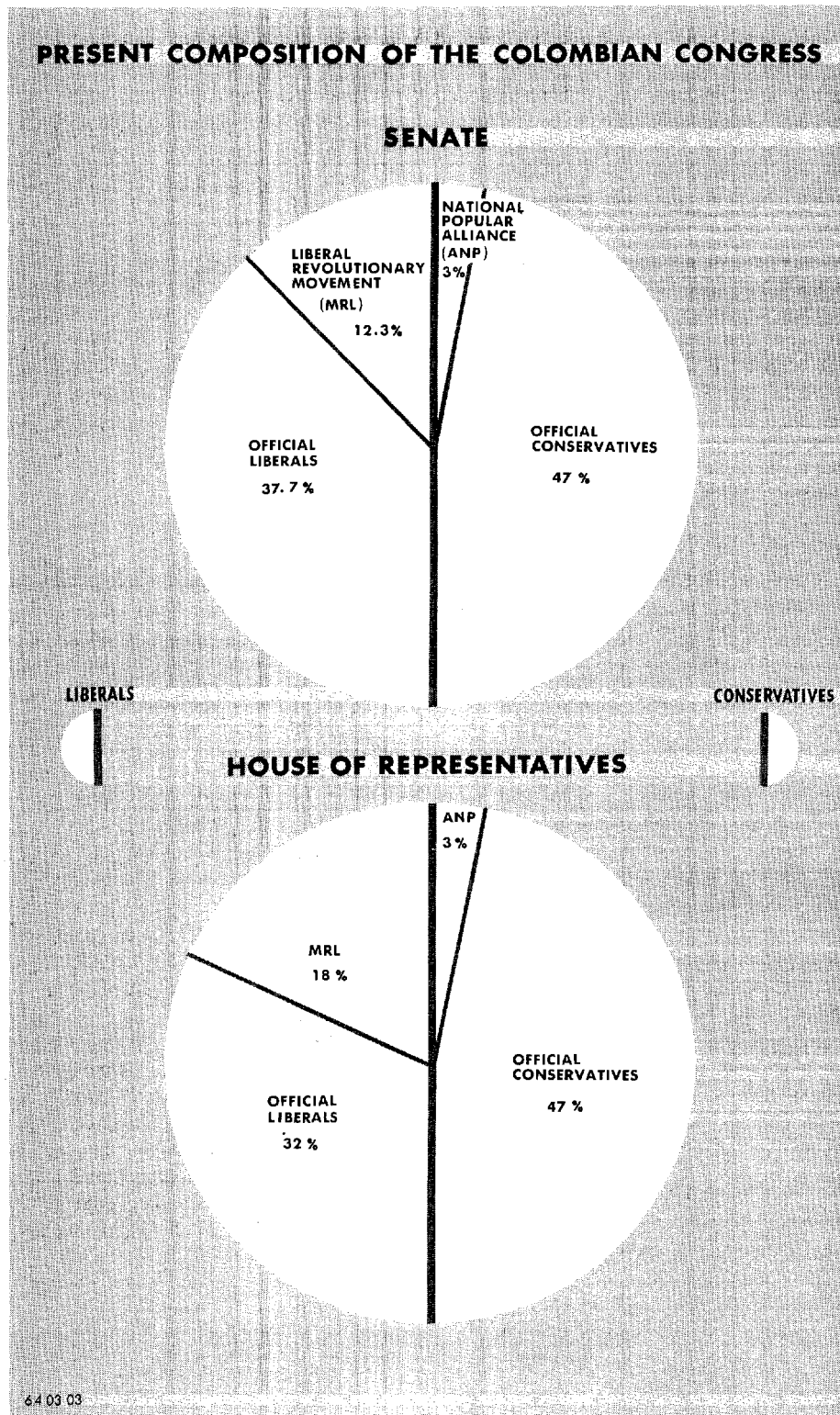
Meanwhile, the Venezuelan Communist Party (PCV) and its Castro-directed ally, the FALN, have continued their terrorist activities, but at a reduced pace. Two serious attacks on US-owned oil company property occurred during the past two weeks.

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The Betancourt government appears to be trying to ensure an orderly transition to the new government by continuing its crackdown on terrorists and guerrillas. On 25 February, the government announced the capture of three major terrorist leaders. Radiobroadcasts indicate that the antiguerrilla campaign is continuing in rural areas.

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Western Hemisphere

THREATS TO NATIONAL FRONT GOVERNMENT IN COLOMBIA

Parties opposed to the National Front arrangement which has been crucial to government stability in Colombia since 1958 may make gains in congressional and regional elections scheduled for 15 March. It is unlikely, however, that the results will give these parties the capability to disrupt legislation or to jeopardize the basic settlement between the two major groups of Conservatives and Liberals.

Under the National Front government, all elective and appointive seats are shared equally between Liberals and Conservatives. Within this party arrangement, however, two political subgroupings compete for the Conservative seats and two for Liberal seats.

The so-called Official Liberals and Official Conservatives are the mainstays of the National Front government. The Official Liberals formed the country's largest single political group in the 1962 elections, and its leader, Carlos Lleras Restrepo, is expected to succeed Leon Valencia, the present Conservative incumbent, as Colombia's president in 1966. It now holds 37 of the 49 liberal seats in the Senate and 59 of the 92 in the House of Representatives.

The rest of the Liberal seats are held by the Liberal Revolutionary Movement (MRL), which has been the main opposi-

tion group within the congress and which has recently split into a "soft"- and "hard"-line faction. It is a serious contender for more Liberal seats in the next congress and forms a sizable threat to the National Front. In the MRL's ranks are many Communist and leftist extremists and, indeed, the Communists and other extreme leftist groups usually vote for candidates on the MRL ticket.

On the Conservative side, the "Official" group, made up of various factions headed by ex-presidents and other prominent Conservatives, now holds 47 of the Conservative seats in the Senate and 86 of those in the House. It faces a serious threat to its unity by the emergence of a radical right wing.

The rest of the Conservative seats are held by ex-dictator Rojas Pinilla's National Popular Alliance (ANP), which as yet forms no sizable threat to the government but is not averse to cooperating with the MRL in the opposition.

Increasing apathy among the voting population, particularly among the followers of the traditional Liberal and Conservative parties, is likely to benefit the opposition parties during the March elections.

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